FARMERS' NEWSLETTER
Livestock

February 81/L—20

Income Prospects Dim

Hog producers face sharply higher costs with a reduced but still large pork supply. Barring any substantial changes, net income prospects for 1981 are not much brighter than last year.

Hogs are likely to average near $50 for the year. That's up $10 from 1980, but only enough to offset higher costs.

Sharply Higher Costs

Direct cash costs of production will be at least 20 percent higher. Farrow-to-finish producers of average size and efficiency can expect direct cash costs of around $50 per cwt. of production. Mid- to large operations should average $2 or $3 less--possibly as much as $6 or $7 less if feed is bought and used to best advantage.

Feed costs will be up a third until the 1981 crop is made. Corn may even reach $4 in deficit areas. Feed costs aren't likely to decline until late summer if at all, depending on crop developments here and abroad.

High feeding efficiency will be critical to turning a profit this year. Average U.S. farrow-to-finish operators use about 440 pounds of feed to produce 100 pounds of hog. Better producers aim for 420 pounds--almost 6 bushels of corn and 90 pounds of supplement. Some top managers break the 400-pound mark.

The Farmers' Newsletter is written and published by USDA's Economics and Statistics Service and approved by the World Food and Agricultural Outlook and Situation Board.

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The next livestock newsletter is scheduled for early May.

DIRECT CASH COSTS TO RISE AT LEAST A FIFTH*

	1979	1980	1981
	Dollars per cwt. of sales		
Feed	26.71	28.31	36.76
Hired labor	1.70	1.84	2.04
Other production items	5.84	6.99	8.10
Interest on operating capital	.97	1.27	1.24
General farm overhead, hog share	2.17	2.48	2.71
Total	37.39	40.89	50.85

* Costs for average U.S. farrow-to-finish operators.

Fuel costs will probably rise more than 20 percent this year. Most other non-feed inputs will cost at least 10 to 12 percent more. Interest rates may moderate, but will still be high.

Options This Year

Many producers pushed production beyond the capacity of their facilities in 1980. Cutting back will help the overall supply and price situation. However, capacity operation spreads fixed costs and minimizes cost per unit for several inputs such as labor, heat, and ventilation.

Pay extra attention to all good management practices--breeding stock selection, animal health, ration formulation, sow weights, slaughter weights. Watch your cash flow position. Production and financial records are especially useful. Interest on borrowed money is high. Futures market hedges may present some opportunities.

DECEMBER HOG INVENTORY STILL LARGE

	1978	1979	1980	1979 to 1980
	Thousand head			% change
Inventory:	60,356	67,353	64,520	-4
Breeding	9,605	9,655	9,164	-5
Market	50,751	57,699	55,356	-4
Weight groups				
Under 60 lbs. .	21,244	22,845	22,191	-3
60-119 lbs.. . .	13,086	15,437	13,934	-10
120-179 lbs. . .	9,443	11,284	10,973	-3
180 + lbs. . . .	6,979	8,133	8,258	+2
Pig crop				
Dec.-Feb.	18,807	21,897	23,690	+8
Mar.-May.	23,674	28,674	28,612	0
Dec.-May	42,481	50,571	52,302	+3
June-Aug.	22,937	26,910	24,352	-10
Sept.-Nov.	23,094	25,210	24,980	-1
June-Nov.	46,031	52,120	49,332	-5

Production Still High

Last year pork producers sent some 96 million hogs to slaughter. This gave consumers 75 pounds of pork per person, one of the largest amounts ever. Prices collapsed, leaving many producers with cash losses for the year.

Prospects brightened some last fall, as the industry appeared ready to cut production about 10 percent. This would have reduced pork supplies below 70 pounds per person and might have boosted hog prices into the mid-$50's for 1981.

Last December, however, producers reported only 4 percent fewer hogs on hand than the record number a year earlier and nearly 7 percent more than 2 years ago. Pigs under 60 pounds, which will bear on pork supplies this spring, were off only 3 percent.

FEWER FEEDER PIGS

	Farrowings, Sept.-Nov. 1980	Farrowing intentions, Dec.-May 1981
	Percent change from year earlier	
Kentucky	-18	-17
Missouri	-15	-11
North Carolina	-4	-15
South Dakota	-16	-11
Tennessee	-11	-19
Wisconsin	-5	-11

Production also will remain high during second-half 1981 even if producers reduce December-May farrowings 6 percent as indicated. Such a cut probably will not be enough to reduce pork supplies to a level that will support profitable hog prices for most producers.

Fewer Feeder Pigs

Last fall, producers in major States that sell pigs for feeding in other areas cut farrowings as much as 18 percent. These same producers plan to reduce farrowings up to 19 percent the first half of this year. Because of the uncertainty surrounding hog and feed prices, pig finishers should watch supplies and prices closely.

Sixty-five Pounds of Pork

Take a hard look at rapid price changes such as last summer, keeping one fundamental in mind: Consumers may have a strongly entrenched desire for a rather specific amount of pork. They may not buy more except at lower prices that may translate into a loss to producers.

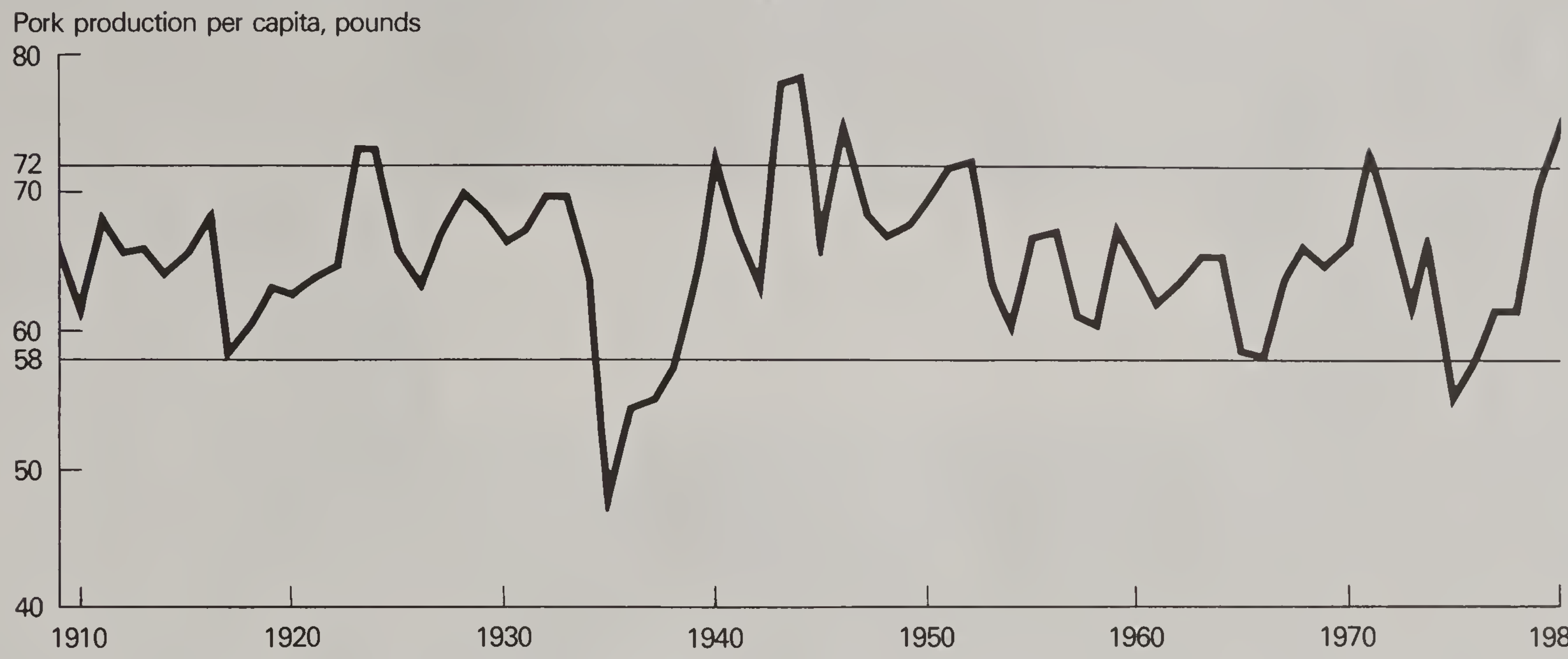
During the last 30 years, beef production has trended strongly upward, though it now may be leveling off. Consumers bought more beef even at increasing real prices. Meantime, poultry production doubled. Americans now eat nearly as much poultry as pork.

Despite industry promotion and substantial improvement in pork quality, consumption of pork remains trendless. For example, since 1909, pork use stayed between 58 and 72 pounds a person for 58 of those 72 years.

In recent years, consumers have bought around 65 pounds of pork at a price that let producers make a profit. With larger supplies returns have fallen and vice-versa.

Don't expect consumer demand to support a high level of pork production at a profit to producers in 1981 or the

SEVENTY-TWO YEARS OF TRENDLESS PORK CONSUMPTION



next few years. Right now, there's no sign that pork demand will turn higher, and plentiful supplies of competing meats will put a lid on profitable pork prices.

More Resistance to Downside Adjustments

The hog industry has produced more hogs than could be sold profitably many times before. Repeated adjustments to periods of loss have reduced the number of producers from 2.1 million in 1950 to a little over 400,000 today, creating a more specialized agriculture.

Most of the generally small volume operators--who could get in and out of the hog business quickly as prices changed--are gone. Large volume producers now turn out more than 40 percent of all hogs, and mid-size operations about the same. Last December, small volume producers accounted for less than 16 percent of the U.S. hog inventory.

Larger producers may still be able to realize somewhat profitable returns based on the current supply and price picture. However, smaller producers may have much more difficulty.

Since their businesses are committed to hogs as the major or sole enterprise, mid-size and large-size producers tend to resist cutting production when prices are low. Also, of course, they have some cost advantages over smaller units.

Hog production has expanded very slowly since 1975, possibly signaling a new era. Unlike past expansions, growth was concentrated in the larger units. Their expansion process was more complicated than simply breeding extra gilts. Planning, financing, construction, and hiring new employees took 2 or 3 years. Some observers mistook the delay in expansion as a sign that the hog industry was less responsive to prices than several years ago.

More of the larger producers' costs are fixed. Continued production is justified if cash costs can be covered. If reserves are sufficient, operators may

LARGE PRODUCERS' SHARE GROWING RAPIDLY

	All hogs & pigs Dec. 1 inventory	Share by size class 1-99 head	100-499 head	500 + head
	Thousand head		Percent	
1977	56,539	18.9	45.8	35.3
1978	60,356	18.0	44.7	37.3
1979	67,353	16.5	43.1	40.4
1980	64,520	15.8	41.9	42.3
	Percent change from previous year			
1978	+6.8	+1.7	+4.2	+12.8
1979	+11.6	+2.3	+7.6	+20.9
1980	-4.2	-8.3	-6.9	+0.3

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rightly consider hired labor costs as fixed for a while rather than cut or cease production and lose trained employees. However, the resulting large production suggests periods of severely depressed returns.

Over the Longer Run

A look beyond the next few months indicates basic changes may be near. Just as relatively cheap feeds helped livestock producers boost production in the past, more expensive feeds could curtail production in the future.

Corn production in the 1970's increased from less than 5 to a record 7.9 billion bushels 2 years ago. Much of the increase came from acres previously idled by government programs. Now that this land is back in production, future gains will depend largely on yield increases, along with relative prices of feed crops.

Recent growth in corn production went largely to export. From 1970 to 1979, corn exports rose more than four times to 2,433 million bushels, while corn fed to U.S. livestock increased less than a fourth to 4,350 million bushels. Soybean production doubled in the decade, and use of soybean meal increased from 18 to 26 million tons. Nearly a third of the increase entered the export market.

Continued growth in foreign demand for feedstuffs could put additional pressure on domestic feed use. Also, fuel from grain represents a new demand of unknown potential.

Higher energy costs may change hog production costs among regions. The difference in corn prices between the Southeast and interior Corn Belt are nearly four times greater now than 5 years ago. Will there be offsetting advanages in building costs, heating expense and other factors?

Population growth appears to be the only major plus for increased pork use. In addition, if consumer incomes come under less pressure, this could stimulate pork demand.

If feed supplies get scarcer relative to demand, and prices rise sharply, which of the competitive uses will be the strongest? Will foreign demand force prices high enough to cause domestic consumers to reduce meat consumption? How will pork fare relative to beef and poultry? How will your costs compare with other hog producers nearby and in other regions?

Accurate prediction of supply-price turns is difficult. However, if you can figure on making money from hogs on the average, you may want to stay in business, rather than go in and out.